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In the Supreme Court of the United States

OCTOBER TERM, 1968.

No. 471.

PERFO-LOG, INC.,
Petitioner,

vs.

WELL SURVEYS, INC. (now DRESSER SYSTEMS, INC.) and DRESSER INDUSTRIES, INC.,
Respondents.

SUPPLEMENTAL BRIEF OF RESPONDENTS
In Opposition to Petition for Writ of Certiorari.

RUFUS S. DAY, JR.,
RICHARD M. DONALDSON,
1800 Union Commerce Building,
Cleveland, Ohio 44115,

JAMES A. PEABODY,
100 Park Avenue Building,
Oklahoma City, Oklahoma 73102,

ROBERT K. SCHUMACHER,
2157 Field Building,
135 South LaSalle Street,
Chicago, Illinois 60603,
Attorneys for Respondents.

THE GATES LEGAL PUBLISHING CO., CLEVELAND, OHIO—TEL. (216) 621-5647

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We are filing this Supplemental Brief because Petitioner in its Reply Brief argues points not made in its Petition. One of these was apparently not available at the time the Petition was filed.

1. The Cardinal Surveys and Booker Drilling License Agreements.

These agreements, to which Petitioner devotes the first few pages of its Reply Brief, were not even mentioned in its Petition. They are not mentioned in Petitioner's Motion for Summary Judgment, which was based solely on the licenses under only the Swift and Peterson patents (R. 768). A reading of the Conclusions of Law of the District Court (R. 1772-1774) and its Judgment (R. 1775) indicates that it did not base its Summary Judgment for Petition on the Cardinal and Booker licenses, but only on the eight licenses under Swift and Peterson, on which

Petitioner's Motion was based, which were licenses of a different kind.

The fact is that both the Cardinal and the Booker licenses were agreements of the type referred to in Respondents' main brief (first full paragraph, page 4) and in the Beaver Affidavit (Appendix to Respondents' brief, page 18), which were entered into by a few licensees who wanted a license under *all* of WSI's 80 or 90 patents in the radioactivity well logging field. In these agreements the licensee obtained the right to use any of WSI's patents and agreed to pay a royalty on its total receipts from radioactivity well logging, regardless of the use or expiration of any particular patent. As pointed out in our main brief, most of the licensees preferred to take a license either under Swift alone, or Swift and a few other patents, and to pay royalty only on operations that would infringe a licensed patent.

In other words, the Cardinal and Booker licenses were not the basis of the summary judgment which Petitioner seeks to have reinstated; and, in any event, they were agreements of the same type approved in *Automatic v. Hazeltine,* 339 U.S. 827 (1950), and were substantially identical with the WSI licenses approved in the original *McCullough* case (343 F. 2d 381, 10 Cir., 1965, *cert. denied* 383 U.S. 933, 1966).

2. The Change in Royalty Base on the Expiration of Swift.

Petitioner finally acknowledges that, as held by the Court of Appeals, the royalty base of the licenses under Swift and Peterson does change on the expiration of Swift, in that the royalty is payable on Peterson rather than on Swift, and that no royalty is payable except on logging operations in which Peterson is used (Reply Brief, pages 6, 7).

However, Petitioner argues that the Peterson patent still "does not stand on its own feet," but somehow "'borrows quality' from the 'important' Swift monopoly and draws on *that* expired monopoly to extend the royalty payments on Swift illegally into the post-expiration period" (Reply Brief, page 7).

These arguments are incomprehensible to us. Petitioner admits that no royalty is payable after the expiration of Swift unless Peterson is used. The Record is clear that at least five alternatives to Peterson are available (R. 889); that there is no difficulty in changing from the Peterson device to one of the alternative forms (Hawthorne deposition, R. 2176-2178); and that Perfo-Log in fact did so (R. 2178). The Record is also clear that no licensee was compelled to take Peterson, and that about 60 licensees elected to take Swift alone (R. 891-896).

There is obviously no drawing on the expired monopoly of Swift after its expiration. After Swift expires, the licensee pays no royalty on *any* operation, unless he elects to use the Peterson device in *that* operation. If he does not want to use the Peterson device, or thinks the royalty for it too high, alternative devices are available to him, and the change is an easy one. If, in this situation, the licensee decides to use Peterson and pay the royalty, he does so presumably because he wants to use it and believes it is worth the royalty charged. In other words, Peterson *does* stand on its own feet, the royalty *is* related solely to the value of Peterson, and Peterson borrows no quality from Swift or any other source.

If, on the other hand, the licensee decides not to use Peterson, no royalty is payable—or, in other words, the operation is excluded from the base on which the royalty is paid.

3. Counsel's Article in the Patent Law Annual.

Petitioner appends to its Reply Brief an article by counsel for WSI appearing in the 1968 Patent Law Annual of the Southwestern Legal Foundation, discussing, among other things, the original *McCullough* case and the *Rocform* case.

A reading of the article will indicate that, even though it was written before the Tenth Circuit decision in the instant case, its conclusions are substantially the same as those drawn in our main brief.

In both the article and the brief, we indicated a possible difference, at least in language, between the views of the Tenth Circuit and those of the Sixth Circuit. The difference is that the Tenth Circuit believes that, even if there had been no diminution in royalty—either in the rate or in the base—at the expiration of Swift, there would still be no misuse if the agreement was voluntarily entered into. On the other hand, it is arguable—though by no means clear—that the Sixth Circuit believes that, if there were no diminution in royalty at the expiration of an important patent, there would be misuse, regardless whether the agreement was voluntarily entered into (Respondents' main brief, page 13; Petitioner's Reply Brief, Appendix, page 16).

However this may be, as we pointed out in the next last paragraph of our main brief, the question as to which the possible difference exists is not presented by the instant case. In this case, as the Court of Appeals found, there was a diminution of the royalty base in the licenses under Swift and Peterson at the expiration of Swift, and no royalty was payable thereafter except on operations in which the licensee freely chooses to use Peterson.

This point is discussed in general terms at the end of our article, as follows (Reply Brief, Appendix, pages 17, 18):

"Would it be an acceptable alternative solution merely to exclude from the royalty base, as each licensed patent expires, operations that are covered only by that patent?

"While this would not reduce the royalty rate when the patent expired, it would actually or potentially decrease the *base*. In my judgment, this alternative meets the test of *Rocform*, because it operates to reduce the royalty when the patent expires, and should be sufficient to avoid misuse."

The view above expressed is in accord with the Report of the Attorney General's National Committee to Study the Antitrust Laws (1955), where it is stated at page 240:

"* * * where a substantial group of patents are offered at a flat royalty rate, the deletion of one or several specified patents need not affect the rate. Rather the benefit to the licensee will lie in other factors such as exclusion of products subject to the several patents from the royalty computation."

We submit that the Court of Appeals was clearly right in reversing the summary judgment for Petitioner rendered by the District Court, and that the Petition herein should be denied.

Respectfully submitted,

RUFUS S. DAY, JR.,
RICHARD M. DONALDSON,
1800 Union Commerce Building,
Cleveland, Ohio 44115,

JAMES A. PEABODY,
100 Park Avenue Building,
Oklahoma City, Oklahoma 73102,

ROBERT K. SCHUMACHER,
2157 Field Building,
135 South LaSalle Street,
Chicago, Illinois 60603,
Attorneys for Respondents.